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December 16, 2008

AGENDA ITEM 10

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: EFI's Parallel Valuation and Certification of the June
30, 2007 1959 Survivor Benefit Program Valuation

II. PROGRAM: Actuarial Office

III. RECOMMENDATION:

It is recommended that the Committee accept and recommend to the Board of Administration the acceptance of the EFI's report on the parallel valuation and certification of the actuarial valuation of the 1959 Survivor Benefit Program in completion of Task 6 of Contract 2003-3236.

IV. ANALYSIS:

EFI recently completed their independent parallel valuation of the 1959 Survivor Benefit Program Valuation. This is the second time that EFI has audited the 1959 Survivor Program, with the first being December, 1999. EFI has certified the results as "accurate and complete and fully compliant with generally accepted actuarial principles and with all standards of practice". They've also found the actuarial methods and assumptions used to be "reasonable and within acceptable standards of practice". EFI's independent parallel valuation of the 1959 Survivor Benefit Program produced a present value of benefits within 1% of those calculated by Staff. The sample data included nearly 600 sample lives from across all levels of benefits. There were some subgroups within the larger sample from the Indexed Level where normal cost and accrued liability varied by roughly 5%, however, EFI attributed this to "minor differences in the valuation models and thus do not represent material deviations".

EFI noted 3 potential issues with the valuation:

- 1) "...some of the payment amounts (in the data) listed for the survivor samples did not seem to match their benefit level and coverage tier." Staff is aware of this issue. At CalPERS there can be pre-retirement death benefits which are coordinated with other death benefits. In these cases, there can be an offset to the full amount paid through the 1959 Survivor roll. Sometimes when a new death is placed on the roll for the first time, there is some uncertainty as to which roll the benefit will ultimately be paid from, and in subsequent valuation years, the benefit paid from the 1959 Survivor roll will change. Consequently, in the nature of conservatism, Staff decided some time ago to simply value the record at the full 1959 Survivor level. It should be noted that the number of these cases is small and wouldn't have a material effect on the resulting costs.
- 2) "With respect to the computation of liabilities and cost for active members in the Indexed Level....we suggest investigating alternative methods of estimating the present value of survivor benefits at death (other than a claims matrix), such as full projection of expected cash flows". This is something that Staff will consider for next year's valuation.
- 3) "In the plan provision section of the report, the start and stop nature of survivor benefits should be described in more detail". Staff will make these recommended changes in the next valuation.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial Office.

VI. RESULTS/COSTS:

There are no costs associated with this item other than the payment of EFI's fee under contract 2003-3236.

Rick Santos
Senior Pension Actuary
Actuarial Office

Ron Seeling, Chief Actuary
Actuarial & Employer Services Branch

Members of the Benefits and Program Administration Committee
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